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SMALL AND MINORITY BUSINESS OWNERSHIP IN THE CABLE TELEVISION INDUSTRY

A REPORT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS

SECOND SESSION

DECEMBER 17, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., December 17, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
The Speaker,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Transmitted herewith is a report of the Committee on Small Business entitled, "Small and Minority Business Ownership in the Cable Television Industry."

The report is submitted with the approval of the full committee.

With best wishes, I am,

Sincerely,

PARREN J. MITCHELL,
Chairman.

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Mr. MITCHELL of Maryland, from the Committee on Small Business, submitted the following

REPORT

CHAPTER I.—BACKGROUND AND PURPOSE OF HEARINGS

The Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, chaired by Representative Parren J. Mitchell (Democrat of Maryland), ocnducted hearings on September 23, October 13, and November 4, 1981 to investigate the present extent and future prospects for local small and minority business participation in the cable television industry. The Subcommittee sought to determine, in specific, those impediments faced by small and minority business in owning, constructing and servicing cable television systems and whether these small concerns are receiving access to programming, business opportunities, joint ventures, capital, and tax incentives.

In addition to Chairman Mitchell, the Subcommittee is comprised of the following Members: Representative Neal Smith (Democrat of Iowa); Representative Joseph P. Addabbo (Democrat of New York); Representative Henry B. Gonzalez (Democrat of Texas); Representative Charles Hatcher (Democrat of Georgia); Representative Gus Savage (Democrat of Illinois); Representative Joseph McDade (Republican of Pennsylvania); Representative John Hiler (Republican of Indiana); Representative Michael Staton (Republican of West Virginia); Representative Hal Daub (Republican of Nebraska); and Representative Christopher H. Smith (Republican of New Jersey).

Topics under review during these hearings included multiple franchises, incentives to MESBIC's and SBIC's that finance local cable companies, the use of tax incentives for equity investments to promote ownership by women and minorities, and the purchases by cable companies of software products produced by small, minority and women owned businesses. The Subcommittee also explored the extent to which majority cable companies, and the National Cable Television Association, in conjunction with the Federal Communications Commission, could translate the expressed need for more small and minority business participation into actual contracts and the increased ownership of telecommunication companies.

The cable television industry, which was a traditional "mom and pop" small system operation under the direct regulation of the FCC, has given way to bigger corporate systems as the industry expanded into larger municipal markets. Many small cable systems still exist and operate in the nation's smaller and medium size communities, but a number of these smaller systems have been sold or incorporated into larger systems. Since Federal involvement is a traditional part of the industry, and small business growth an essential factor in the development of cable television, the Subcommittee believed it necessary to review the industry not only to assure that the legitimate interest of small and minority businesses are addressed, but to assure that the numerous communities which are and will be the recipients of entertainment and other broad-

band telecommunications services by the telecommunications industry are adequately served. If a means of assuring the advancement of minority and small business ownership in cable is not developed, the cable industry may be subject to domination by a select number of businesses controlling and/or significantly influencing both the larger and smaller markets across the country. This development would clearly be inconsistent with small business policies codified by numerous Federal laws and the principles of free and fair competition upon which our economic system is based.

The small entrepreneurs entry into the telecommunications field may be accomplished by purchasing an existing system or by building a new telecommunications system. However, the small and minority entrepreneur are hampered due, primarily, to lack of access to sufficient capital. The telecommunications industry is a very capital intensive business. High interest rates coupled with financial institutions which historically have not provided sufficient long term debt to small and minority owned firms and a weak investment tax credit have all served to perpetuate these barriers to business entry.

It was against this background that the Subcommittee commenced its investigation.

CHAPTER II.—HISTORY OF THE CABLE TELEVISION INDUSTRY

Background

Cable television was introduced in the late 1940's as a means of correcting poor television reception and for receiving transmissions from distant cities in remote rural areas with little or no television reception. For a prescribed fee, a home was wired to feed in broadcast signals collected from large antennas and microwave facilities built in the areas.

For a number of years the industry remained a collection of rural service owned and operated, "mom and pop" cable franchises. In the 1960's the Federal Communications Commission (FCC) through a series of indirect and direct regulatory measures, froze the development of the industry and restricted cable television development to the rural areas. In 1962 there were less than 800 cable systems in the United States. By 1968, barely five percent of the nation's televisions were wired for cable reception.

With the advent of revised FCC cable regulations in 1972 the industry rapidly developed into the billion dollar industry it is today. In 1975, with the launch of a communications satellite, cable operators were no longer dependent upon microwave importation of signals, but were now offered an alternative means of distributing programming on a more efficient and effective basis. Also introduced during the 1970's was the cable television accessory service of pay cable. In 1973 only 35,000 homes subscribed to the pay television service; by 1979 the number of subscribers grew to a level in excess of 5.7 million. In 1981 the entire industry earnings were estimated to be over $2.9 billion, or one-fifth of the annual revenues of commercial television. With the cable subscriber market expanding at such a rapid rate, cable penetration is expected to reach a thirty percent level before the end of 1982. This level, experts state, would establish the industry as an economically viable mass communications medium.

Presently, the industry continues to develop the technology, programming, and services which will establish it as one of the most advanced communications mediums in America.[1] As the industry goes through a period of rapid expansion, the traditional "mom and pop" ownership of cable television franchises has given way to the large corporate multiple system operators (MSO).[2] By 1982 the

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[1] In 1962 there were 4,500 cable systems in the United Statees serving 10,700 communities. 3,700 additional franchises have been awarded but have not been constructed. Total penetration is estimated to be 27 percent of the nation's television households (22.1 million subscribers or approximately 62 million people). Of the existing cable systems, 3,105 systems originate programming in their own studios for approximately $30,000 for a small black and white operation to $200,000 for a color studio; cable costs may vary from an average of $12,000 per mile for an underground wiring system to $6,300 per mile for a sizeable market. Statistics compiled from *Broadcasting/Cablecasting Yearbook*, 1982, p. G–3, Broadcasting Publications, Inc., Sol Taishoff, Editor, Lawrence Taishoff, Publisher.

[2] See table below.

ten largest MSO's served over one-half of the nation's cable subscribers, with significant increases expected in the future. By 1982 the five major cable programmers have reached over 16.2 million subscriber homes and basic services are being supplied to a majority of cable homes. Local control of system ownership and programming has been decreasing as high costs and large operators force the small cable entrepreneur out of the lucrative cable television market.

Over the years, the FCC has expressed concern about the impact of cable television on the traditional commercial market and has formulated various regulations concerning system ownership by other major communications entities. Cable system ownership is prohibited to telephone companies within their local exchange areas (this rule does not prevent telephone companies from owning cable systems outside their local exchange area); to commercial television stations within the same market; to television translator stations; and to any future formation of co-located newspaper-broadcast combinations. While the FCC cross-ownership prohibitions reflect a desire to maintain diversity in industry control over local mass communications media, the Federal Government has not assured the continued reasonable access to ownership of systems, and control of programming by smalll cable television entrepreneurs. Reasonable and bona fide ownership by local entities would help to assure that the needs of the residents of a locality would be met and small cable television entrepreneurs again, would become an effective part of a traditionally "mom and pop" operation.

Regulatory history

Presently the cable industry is regulated to some degree by all levels of government. Local authorities impose requirements relating to local terms and conditions. State regulation was first sanctioned by the Supreme Court in 1970. In *TV Pix, Inc.* v. *Taylor,* the Court held that ". . . in the absence of Congressional preemption, states have the right and power to regulate cable television." Federal regulation is administered by the Federal Communications Commission through the 1972 Cable Television Report and Order [3] which defines the general framework of the industry today, as it has evolved through a history of regulation and legal decisions.

*United States Cable Systems by Subscriber Size (June 1, 1981)**

Size	*Number*
50,000 and over	26
20,000 to 49,000	179
10,000 to 19,000	301
5,000 to 9,999	469
3,500 to 4,999	340
1,000 to 3,499	1,375
500 to 999	816
250 to 499	565

[3] *Cable television report and order.*—Generally a determination rendered by the Federal Communications Commission pursuant to sections 555–556 of the Federal Administrative Procedures Act (including notice and comment rulemaking procedures of section 553).

Size	*Number*
249 and under	508
Not available	58
Total	4,637

*Source: Television Factbook 1981-1982 edition, Services Volume, p. 83-a.

The cable television industry remained small and undeveloped for the ten years following its inception in 1952. By 1962 there were less than 800 systems in the United States. In 1972, with the gradual deregulation of the industry by the FCC, cable development rapidly expanded.

There has been an increase of 640 systems in the cable market from the 1978 period, the majority of which fall within the 20,000 and less subscriber size range and can be classified as part of the smaller cable systems.

As of 1981 a total of twenty-eight franchises had been awarded to minority owned concerns. Of the twenty-eight, eleven are operational. There are five operational Black firms, five operational Hispanic firms, and one operational Native American firm.

The following is a brief recitation of significant Court opinion and regulatory actions which have affected the development of the industry.

CARTER MOUNTAIN TRANSMISSION CORP. V. FCC (1962)

Upholding an FCC decision, the United States Court of Appeals (D.C. Cir.), denied a cable system operator authority to transmit television signals by microwave to a commercial with one local television station. The Commission rationalized that the availability of additional channels to the community through a cable system would cause severe economic problems to a local community television station. The Commission's determination was found to be consistent with the 1952 Allocation Plan which was designed by the FCC to supply sufficient channels for nationwide service and to maintain a policy of "localism."

DIRECT REGULATION OF MICRO-SERVED CABLE SYSTEMS, FIRST REPORT AND ORDER (1965)

The FCC decision marked the transition of cable systems from common carrier status to private carrier status when the FCC permitted the development of microwave network for the private use of cable systems.[4] The Federal Communications Commission, recognizing the rapid expansion of the CATV (cable) market at a pace in excess of other markets, asserted that "action in advance of an actual crisis (is) all the more imperative."

DIRECT REGULATION OF CABLE SYSTEMS, SECOND REPORT AND ORDER (1966)

This FCC order directly regulated cable systems through a series of prohibitions and requirements. Cable systems were:[5]

[4] *Common Carrier.*—The generic name for any medium which carries messages by others for a fee and is required by law to offer its services on a non-discriminatory basis. Also, common carriers are regulated by Federal and State agencies, and exercise no control over the message content carried. (See, *A Cable Primer*, NCTA, p. 52). *Private carrier* (non-commercial carrier).—Non-common carrier used for private business or other private activities not for general public use.

[5] Cable Television Information Bulletin, FCC, May 1978, p. 2.

"to carry all local television stations; prohibited from duplicating, on the same day, via signals originating in another city, a program broadcast by a local station; and prohibited from bringing distant signals into the 100 major television markets without a hearing on the probable effects on local broadcasting. In all other markets, no restrictions were placed on the signals a cable system might carry, but procedures were adopted permitting threatened stations to challenge proposed importation of distant signals."

UNITED STATES V. SOUTHWESTERN CABLE COMPANY (1968)

The Supreme Court affirmed the FCC's jurisdiction over cable, finding that the Commission needed authority over cable systems in order to preserve local broadcast service and to regulate the distribution of broadcast service on a regional and national level.

THE "FREEZE" PERIOD [6] (1968–72)

By the end of 1968, the FCC determined that revision of the Direct Regulation of Cable Systems, Second Report and Order (1966) was necessary. Revisions were offered to assure basic guidelines as opposed to relying on the burdensome evidentiary hearing procedure in use at the time the 1968 proposals were made. Under the interim procedures that were adopted, in 1968, all hearings under the 1966 rules were suspended or deferred, unless consistent with proposed new rules. Under this scheme, cable development in the major markets was effectively frozen.

CABLE TELEVISION REPORT AND ORDER (1972)

Pursuant to the Consensus Agreement of 1972 [7] which established the groundwork for the Cable Television Report and Order, the FCC imposed an extensive regulatory plan for the cable television industry. The plan which was divided into four regulatory areas (signal carriage; access and non-broadcast activities; technical standards; and intergovernmental relationships) introduced the "certificate of application compliance" [8] as a key precondition for operation. The Certificate of Compliance was the FCC's instrument of authorization granted cable systems once they complied with all of the FCC rules and regulations. The Certificate was instituted as

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[6] See, *A Cable Primer,* NCTA, pages 31–32, 1981.

[7] *Consensus agreement.*—In August of 1971, the FCC sent a letter to Congress outlining its new plan for the regulation of cable television. Intensive negotiations between parties followed the release of the letter, directed primarily by the Office of Telecommunications Policy, and the Executive Office of the President. The parties reached an accord known as the Consensus Agreement which established the foundation of the 1972 Cable Television Report and Order. (See, *A Cable Primer,* NCTA, page 32, 1981).

[8] *Certificate of application compliance.*—The Cable Television Report and Order of 1972 required all cable television systems, both existant and proposed, must, subject to this Report and Order, receive a certificate of compliance from the FCC. Existing systems lawfully carrying broadcast signals prior to March 31, 1972 could continue carriage of signals without the certificate until the current franchise period ended or March 31, 1977, whichever occurs first; then the certificate would be required.

The requirements of the certificate included: in part, basic background information on the system (name, address, area to be served, commencement date of operations), a copy of the franchise or license permit, a copy of the signals to be carried, statements of purpose consistent with FCC requirements and other relevant information (see 36 FCC 2d, 217, 218).

a result of the 1972 Cable Report and Order and issued even though the Multiple System Operators and/or Cable System Operator's RFP did not include contracting and/or subcontracting provisions for small and minority business. Also included in the Report and Order were regulations governing other areas of the industry (pay cable; cable television and relay service; pole attachments; ownership; equal employment opportunity; public inspection file and annual reports; and small systems.) Although there has been a gradual removal of Federal regulations on the industry, the 1972 report remains the most recent comprehensive Federal regulatory guideline.

Legislative initiatives

During the 97th Congress, bills were introduced affecting the cable television industry and promoting the involvement of small businesses in that industry. S. 2172, a bill "to amend the Communications Act of 1934 and create a jurisdictional framework which apportions the authority to regulate cable systems between the Federal Government and each of the several states of the United States and allow cable systems to compete in the market place with other providers of telecommunications services to the public," was introduced March 4, 1982 by Senator Goldwater. The bill would preempt, with certain noted exceptions, the authority of local regulators in favor of regulation by the Federal Communications Commission. This would ultimately require all small and minority businesses to adhere to various uniform Federal regulations in addition to ad hoc local regulations presently permitted.

S. 2445, a bill "to amend the Communications Act of 1934 regarding cable telecommunications and for other purposes" was introduced April 27, 1982, by Senators Hollings and Cannon. This bill would redefine the regulations required of small and minority cable television entrepreneurs with regard to local and Federal requirements. Federal oversight would last for five years as opposed to the indefinite oversight period proposed in S. 2172.

As of July 22, 1982 the Senate Commerce Committee approved a revised version of S. 2172 (S. Rept. 97-518). Revisions included the addition of some of the language of S. 2445, but did not alter the proposed reallocation of authority and control of the cable television industry away from the states and municipalities in favor of the FCC. S. 2445 has not been the subject of any action, and the full Senate has yet to act upon S. 2172.

CHAPTER III.—SUMMARY OF TESTIMONY

In his opening statement, at the Subcommittee hearings, Chairman Mitchell commented, "The development of cable television as a local business today is too important to ignore. Too many decisions are being made which we will have to live with for the next quarter century . . . local small and minority business ought to be part of the cable television dialogue, particularly in (the) large urban areas." In recognition of these considerations, the Subcommittee actively solicited and received testimony from a rather diverse group of interested parties.

On September 23, 1981, the Subcommittee heard testimony from Mayor Charles Royer, Seattle, Washington, and Second Vice President, National League of Cities; Dr. Alan Pearce, President, Pearce Enterprises; Mr. Larry Young, President, Center for Urban Environmental Studies; Mr. Percy Sutton, Chairman, Inner Unity Cable Television Systems, Inc.; Mr. Robert Wright, President, Cox Cable Communications Inc.; Mr. Richard Brown, Brown, Bernstein & Longest; Mr. Herbert Wilkins, President, Syndicated Communications, Inc. and a member of the Board of Directors and Treasurer of the American Association of Minority Enterprise Small Business Investment Companies; Mr. Michael Botein, Director, Communications Media Center, New York Law School; and Mr. J. Stanley Alexander, Director, National Conference of Black Mayors.

On October 13, 1981, the subcommittee heard testimony from Mr. Thomas E. Wheeler, President, National Cable Television Association; Mr. Stephen Effros, Executive Director, Community Antenna Television Association; Mrs. Gracie Nettingham, EEO Assistant and Consultant, Office of the United Church of Christ; and Mr. Harry C. Hart, Vice President, Nationwide Underground Cable Systems, Inc.

On November 4, 1981 the subcommittee heard testimony from Mr. Donald T. Templeman, Deputy Administrator, Small Business Administration; Mr. Leopoldo E. Guzman, Vice President, Chase Manhattan Bank; Mr. Alex P. Mercure, President, Mecure Telecommunications, Inc. and the Association for Entrepreneurs in Telecommunications, Inc.; Mr. William A. Douglas, President, Gary Communications Group, Inc.; Mr. Zakee Ameer Rasheid, Executive Vice President and Director of Franchising, Telecable Broadcasting of America; Mr. John Mansell; Editor, Cable TV Security Newsletter, Paul Kagan Associates, Inc.; and Mr. Michael Jarard, President, Satellite Communications Systems, Inc.

The consensus of the private sector witnesses was that the need existed for some type of Federal policy and regulation, and oversight in the cable television industry to assure that the small and minority businesses will get their fair share of opportunities to own, service, operate, and otherwise control cable television fran-

chises. While offered approaches varied, several of the witnesses agreed that legislation was needed to address the following:

(1) Increase the funding for the Small Business Administration's financial assistance programs and adequately train SBA personnel on issues relating to the telecommunications industry.

(2) Increase the funding for those SBIC's and MESBIC's who will invest in the telecommunications industry.

(3) Amend relevant sections of the Internal Revenue Code pertaining to:

(a) Investment tax credits for the purchase of new and used equipment.

(b) Tax treatment of affiliated corporations.

(c) Section 1071 to allow the taxpayer to use preferential capital gains tax reporting method when a television or radio station is purchased by a small or minority business.

(4) Require the Federal Communications Commission to conduct a study with the Small Business Administration and financial institutions to determine if small and minority businesses have been adequately financed in the telecommunications industry with specific reference to the purchase of existing systems or the building of new systems.

Federal involvement

Our witnesses expressed specific concerns in the areas of cross ownership and concentration by large media concerns; the status of the small and minority business operator in the franchising and refranchising process in light of the rapidly increasing cost associated with the industry; and the adequacy of information that is disseminated at the Federal level to small and minority entrepreneurs concerning financing, industry education, and possible business opportunities. Increased involvement by the SBA and FCC was viewed as critical to assure that Federal policy would, in fact, guarantee small and minority business development in a realistic framework. These recommendations are not intended to completely preempt local regulation; on the contrary, local regulation, it was indicated, is favored in the cable industry, but to establish uniform treatment in areas such as franchise fees, access charges, franchise size, and other traditional "Federal areas" involved in the industry that would help to assure small and minority business involvement.[1] Cable television operators are required to submit yearly reports to the Federal Communications Commission.

1. Increased funding by the Small Business Administration and training of SBA personnel in the telecommunications field

Pursuant to section 7(a) of the Small Business Act, a qualified small business concern may obtain loans for specified purposes directly from the SBA. However, before a small firm may be extended financial assistance, it must demonstrate that the requested loan is not available from financial institutions and that such credit would not be extended even with an SBA guarantee of the loan.

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[1] For a description of the franchising process, see, *A Cable Primer*, NCTA, pg. 33, 1981.

Prior to 1978, SBA loan policy precluded assistance to communications mediums including cable television operators engaged in program origination. Donald Templeman, Deputy Administrator, Small Business Administration, indicated that three reasons existed for this prohibition:

(1) SBA wished to avoid the charge that the government was attempting to control editorial policy by subsidizing the media:

(2) Citizens of this country have typically opposed government identification with concerns that might publish or produce matter controversial in nature; and

(3) SBA recognized that the constitutionally protected rights of freedom of speech and press ought not to be compromised either by the fear of government reprisal or by the expectation of government subsidy.

In 1978 the SBA decided to repeal the restriction with respect to broadcasting and the cable television industry. Mr. Templeman indicated that the decision was based on the assumption that SBA loans and loan guarantees would not cause any significant increased governmental involvement in the broadcasting and cable television industry because they are already government regulated industries.

Small and minority businesses do not generally have access to adequate funding from traditional financial institutions, and, therefore, the need for sufficient capital to own, construct, and operate a cable franchise associated with the industry financing sources and personal investments are often inadequate to fund a system. Accordingly, the need for additional SBA assistance was found to be essential in filling the financial gap.

Mr. Templeman pointed out that SBA's present loan limits restrict its business loan financing to only the smaller cable TV systems, unless outside sources of financing are found. SBIC's and MESBIC's can and are playing a role in financing small businesses in cable TV.

Presently the SBA does not maintain a specific breakdown of its regular business loans to cable television concerns (a statistic that the Chairman of the Subcommittee suggested be maintained in the future), but a special study by SBA found that since 1979 a total of 458 loans under the regular business loan program have been approved totaling $98 million. Regardless of the number of cable television loans that have been made, because of the high cost to purchase and construct at cable system, the SBA has been limited in the number of businesses it can significantly assist. The SBA loan guarantee limit of $500,000 does not go very far when it costs from $8,000 to $12,000 per mile to run cable lines, or about $200,000 for one piece of color equipment.

In addition, Mr. Templeman noted that the SBA's present size standard for cable television is $3 million in gross receipts. This figure arguably does not capture many businesses since sources estimate that cable systems must generate substantial revenues in order to meet high operating costs and achieve any modicum of profitability. Moreover, Cable TV is a capital intensive business requiring a large initial investment. These facts demonstrate that the present level of SBA loans is inadequate when compared to the total cost of a cable system, and that SBA's present size standard

for this industry may in addition, be in need of revision. A more objective size standard would be number of employees. This could provide a built-in measure of resistance to inflation for multiple system operators, as well as small cable operators and help assure their viability as they face a regulated industry.

Proposed legislation was recommended to create another SBA financing vehicle allowing the agency to guarantee industrial government or revenue bonds to finance communication systems. Mr. Alex Mercure, President of Mercure Telecommunications, Inc., and of the Association for Entrepreneurs in Telecommunications, indicated that this type of program would provide access to relatively large sums of money without depleting SBA loan funds. It would permit the entrepreneur to obtain relatively large sums of money at competitive rates using mechanisms which are currently in place. An industrial revenue bond program was generally supported by the other cable industry experts who testified.

In addition to increasing the funding of the SBA, witnesses suggested that the SBA maintain professional staff persons knowledgeable in the cable television industry. Because of the constantly changing technological, legal, regulatory, and financial state of the cable television industry, witnesses expressed the need for continuous information dissemination to assure that small businesses be currently advised of these changing conditions. However, Mr. Templeman stated that no one in SBA's Office of Chief Counsel for Advocacy provides any assistance to cable operators or follows cable television issues.

In view of the need for some type of management assistance and information dissemination and SBA's inability to provide these services, the Subcommittee inquired about the nature and extent of the required assistance.

Mrs. Gracie Nettingham, EEO Assistant and Consultant of the Office of the United Church in Christ, insisted:

> minorities need to know where to go to get franchising, how to manage the business, to bid for the franchises both old and new . . . to be informed about the purposes of the Small Business Administration and its special programs for minority entrepreneurship. Additionally, there should be an awareness of the necessary support services that are often leased to small businesses by cable operators, such as building the system, installation and hookup, equipment repair, sales subscription and advertising, and the production of programs, live and packaged. These areas not only offer small business opportunities but encourage employment.

Mr. Larry Young, President of the Center for Urban Environmental Studies supported the need for "intensive telecommunications education" not only for the benefit of the entrepreneur, but also for the interested Federal, State and local official. In addition, the Subcommittee was informed that educational and training programs are needed to introduce potential applicants to jobs in the industry and to facilitate upward mobility once employment is gained. These programs will be more effective if the private sector industry is involved in their formulation and execution.

While the FCC has made some efforts in assisting small and minority entrepreneurs, the SBA is far more experienced in small and minority business development and, therefore, is a better candidate to lead an increased Federal effort in this area. However, any increased activity by the SBA should be preceded by the adequate training of its personnel and by close cooperation with the industry's small and minority business participants. Only after this is done can effective outreach, education and training take place.

2. Increased funding for SBIC's and MESBIC's which will primarily invest in the telecommunications industry

a. Small Business Investment Companies (SBIC's)

SBIC's are privately owned and managed companies which provide equity capital, long term loans, and management assistance to small business concerns. Under the Small Business Investment Act of 1958 and regulations issued by the Small Business Administration, SBIC's are authorized to borrow up to four times their private paid-in capital through the Federal Government with a guarantee supplied by the SBA. SBIC's pay the full cost of money to the Department of Treasury plus a premium for these borrowings. Matching their private capital with government funds, SBIC's have financed more than 60,000 small businesses by providing over $4 billion in equity and long-term credit.

SBIC's disbursed more dollars in calendar 1981 than ever before—nearly one-third of a billion dollars. From a low of $123 million in 1975, SBIC's have been more active each year and the total of $333 million in 1981 represented an increase of 170 percent in 5 years.

Two additional statistics on SBIC's are significant:

(1) SBIC's allocate a large share of their dollars to startup businesses. SBA data shows that in 1981, 41 percent of all SBIC disbursements were to firms one year old or less.

(2) A large percentage of SBIC dollars are disbursed in the form of equity-type or pure equity financings. In 1981, 35 percent of the dollars were invested as pure equity with another 32 percent in the form of debt with equity conversion features. For the first quarter of 1982, 41 percent of SBIC outlays were in the form of pure equity (the highest level ever) with another 32 percent of the dollars invested in equity-type securities.

b. Minority Enterprise Small Business Investment Companies (MESBIC's)

Minority Enterprise Small Business Investment Companies (MESBIC's) are SBIC's which specialize in providing equity funds, long-term loans, and management assistance to small business concerns owned by socially or economically disadvantaged persons. With some modifications, MESBIC's are governed by the same regulations as are regular SBIC's.

Aside from the types of small businesses that may be assisted, the most notable difference between SBIC's and MESBIC's is that the latter's cost of money from the SBA is significantly less.

In 1981 MESBIC's invested $25.8 million of private capital combined with $28.5 million of SBA "leverage" dollars, for a total of

$54.3 million in the minority small business sector. This amount financed 742 businesses, whose total estimated revenues were $185.8 million. In addition, an estimated 3,749 jobs were created through 1981 MESBIC financing activity.

By the end of 1981, over $112 million in private capital had been invested in the MESBIC industry, nearly matching the government's contribution of $142 million. When capital attracted from other private sector sources by initial MESBIC investments is taken into account, the private-public funds ratio jumps to 6:1.

The accomplishments and continuing contributions to the American economy of the MESBIC industry have been recognized and acknowledged by the Administration's proposals for increased funding for the MESBIC program in its fiscal year 1983 budget request.

c. Impact on the cable television industry

Cable industry experts and entrepreneurs focused upon SBIC's and MESBIC's as a vehicle that Congress could use to spur increased small and minority business involvement in the telecommunications industry. Mr. Richard Brown, of Brown, Bernstein & Longest, suggested that if SBIC's and MESBIC's that fund local cable concerns were provided incentives such as reducing the capital gains taxes on those investing in such SBIC's and MESBIC's, it would attract more private dollars and, thereby, result in less dependence on Federal funding. In addition, this would also result in providing more funds for local urban cable development by increasing the number of SBIC's and MESBIC's that participate in communications ventures.

Syncom Capital Corporation is perhaps the most active MESBIC involved in the financing of minority-owned cable TV companies. To date, Syncom has financed four cable systems which include KBLE Ohio, Inc., the nation's first Black-owned and operated cable TV company, serving 24,000 homes in Columbus, Ohio; Telecable Broadcasting of America, Inc., which is now under construction and will serve 16,000 homes in East Cleveland, Ohio; Connection Communications Corporation, a cable TV system under construction in Newark, New Jersey, which will serve 115,000 homes; and Buena Vista Telecommunication, Inc., which is presently constructing a cable TV system in East Los Angeles, California that will serve 30,000 homes when fully built.

Mr. Zakee Ameer Rasheid, Executive Vice President and Director of Franchising of Telecable Broadcasting of America, implored the Subcommittee to assure the continued availability of MESBIC funding:

> I know of no cable television business that is owned by minorities in this country that has not been financed without the assistance of MESBIC's. (SBIC and MESBIC investments are) one of the most effective ways to provide money to minority entrepreneurs and small businessmen in this country who need this sort of assistance. And with the MESBIC method of assistance, as well as finance, I feel that this is one of the surest ways to continue the growth of minority participation, not only in the cable television industry, but in the broadcast industry as well.

To date, Mr. Templeman acknowledges SBIC involvement in the cable television industry is in the development stages, accounting for approximately 2 percent of the annual SBIC financing of small firms. Two relatively new SBIC's and one pending SBIC applicant intend to specialize in financings related to the communications field, including cable TV. (In 1981, 19 SBIC's provided a total of $4.6 million in investments for nine cable systems, while the MESBIC investment was $277,000 in three cable systems financings.) With the recognized effectiveness and potential of the SBIC and MESBIC programs any proposal that would provide incentives for increased investments in the telecommunications industry would, we are told, result in an alternative finance source for the entrepreneur at minimal cost to the Federal Government.

3. Amendments to relevant sections of the Internal Revenue Code

Many of the witnesses believed that to promote small and minority entrepreneurial involvement in the cable industry certain sections of the Internal Revenue Code should be amended. Those sections dealing with investment tax credits, capital gains tax, and allowable consolidation of income and losses by parent companies from subsidiary companies were discussed.

a. Investment tax credits and the purchase of an existing system

Suggestions were made that the Subcommittee consider recommending an amendment to Section 48(c) Definitions; special rules, of the Internal Revenue Code of 1954 (hereinafter referred to as the Code), raising the limit of the investment tax credit to $5,000,000 in cases where small and minority controlled firms are purchasing directly or through a partnership any operating cable system.

Section 48(c) Used Section 38 Property, "means Section 38 property acquired by purchase after December 31, 1961, which is not "new section 38 property." [1] Disqualification of property as "used section 38 property" occurs if used in (a) a sale-lease back transaction (a transaction in which the seller of the property leases back the property from the buyer for use by the seller) or (b) a person who seeks a section 179(d)(2) (A) or (B) relationship to a person who used such property before the acquisition.[2]

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[1] As defined by section 48(b) of the Internal Revenue Code "new section 38 property" is that property which "(1) the construction, reconstruction, or erection of which is completed by the taxpayer after December 31, 1961, if the original use of such property commences after such date." Property in this category is considered (b)(1) property if the work is done for the taxpayer in accordance to his specification, and the basis (value) of such property is attributable to all involved costs. (b)(2) status as "original use" property means the first use to which the property is put, whether or not such corresponds to the use of such property by the taxpayer. If the property is reconditioned or rebuilt it will not be treated as being put to original use by the taxpayer. Note section 48(a) does include as other intangible property-communications property which CCH cites as telephone or telegraph and radio or TV broadcasting companies.

[2] Section 179(d)(2)(A), Credit disallowance to property. Property acquired from a person whose relationship to the purchaser would result in the disallowance of losses because of family relations as defined in section 267(b) (for purposes of section 48(c) family includes only spouse, ancestors and lineal descendants). In section (B) credit disallowance for property acquired by one member of a controlled group from another component member of the same controlled group.

Controlled group is defined in section 48(c)(3)(C) through section 1563(a)(1) (parent-subsidiary controlled group is defined as one or more chains or corporations connected through stock ownership with a common parent corporation). Stock possessing more than fifty percent (note the language of 1563 specifies "at least 80 percent" but section 48(c)(3)(C) replaced the percentage

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Dollar limitations of section 48(c)(2) have been increased pursuant to the Economic Recovery Act of 1981. The dollar limitation as defined in section 46 was raised to $125,000 for all 1981 through 1984 and $150,000 in 1985. Under the Act the regular investment credit amount is 10 percent. Therefore, the maximum investment tax credit allowance on used property would be $12,500 up until 1984 and $15,000 in 1985.

Because of the high cost involved in the start up of a cable television operation, numerous witnesses felt that purchase of a used system by the small entrepreneur was more of a realistic means of assuring viable small and minority ownership. With this assumption in mind, section 48(b) property does not appear to be an attractive avenue to be pursued by the entrepreneur. Section 48(c) offers the small cable entrepreneur an opportunity to buy an existing system (thereby avoiding the high start up costs) in an established market and receive an investment tax credit to help offset his lack of venture capital.

Realistically, the cost of buying a "used section 38 property" can be so high as to make the present investment credit rate insignificant. A proposed dollar limitation increase to $5,000,000 as suggested by one of the witnesses, for small and minority purchasers (which amounts to a $500,000 credit) is more in line with traditional cable costs.

Mr. Leopoldo Guzman, Vice President of Chase Manhattan Bank, stated the numerous benefits in the proposed amendments:

> (1) The proposed amendments do not involve any government loans, grants or guarantees to any group. It is a direct tapping of private capital. The impact of these changes on the Federal budget would be minimal.
>
> (2) The effectiveness of this program resides in the fact that it addresses itself to the most scarce source of capital, equity capital.
>
> (3) The managerial and technical resources to buy an established system is considerably less than is required to build a new system from scratch. Hence, this program makes cable television ownership feasible for a larger number of minority owned firms.

b. Purchase of an existing system under Section 1071 policy

Section 1071 of the Internal Revenue Code permits the deferral of capital gains tax pursuant to this section only upon the sale of a telecommunications business. Potential investors planning to invest in a minority telecommunications property might choose to negotiate repurchase agreements or other contractual arrangements with the entity to guarantee its investment in telecommunications.

Section 1071 of the Code has been used by the Federal Communications Commission as a tool to increase the percentage of minority ownership in broadcasting.[3] Although there is no specific language

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level to "more than 50 percent") of the combined voting power of all classes of stock entitled to vote or more than fifty percent of the total value of share of all classes of stock of each of the corporations, except the parent, is owned by one or more of the subsidiaries and the parent owns stock possessing more than fifty percent of the total combined voting power of all classes of stock entitled to vote or more than fifty percent of the total value of share of all classes of stock at least of the other corporations.

[3] Statement of Policy on Minority Ownership of Broadcasting Facilities, 68 FCC 2d 979 (1978).

specifying minority ownership as an FCC policy, past policies have affirmed the need for viable minority ownership in broadcasting. Therefore, the FCC has used the tax certificate authority of Section 1071 to issue tax certificates to broadcasters who have sold or transferred control of stations to groups with at least 50 percent minority ownership.[4]

At the election of the taxpayer, Section 1071 defers the recognition of the gain on the sale or exchange of property if the FCC grants the taxpayer a certificate [5] which is in accordance with policies of the Commission with respect to the ownership and control of radio broadcasting stations. If the sale or exchange occurs after December 31, 1957, the certificate from the Commission must clearly identify the property and establish the policy of the Commission to be furthered.

The certificate shall be accompanied by a detailed statement showing the kind of property, the date of acquisition, the cost or other basis of the property, date of sale or exchange, name and address of the transferee, and the amount of money and the fair market value of the property other than money received upon such sale or exchange.[6]

c. Alternative elections by the taxpayer

If the taxpayer elects to complete the sale as a section 1071 transaction, it can be treated further as an involuntary conversion under Section 1033 of the I.R.C.

Section 1033 applies to cases where property is compulsorily or involuntarily converted. An "involuntary or compulsorily conversion" may be the result of the destruction of property in whole or in part, the theft of property, the requisition or condemnation of property, or the threat or immense thereof.

Section 1071 sales treated as Section 1033 transactions which allow the seller to defer the recognition of capital gains have potential advantages for the taxpayer/seller, but the purchaser may be buying property in questionable condition. Property in a state of partial destruction or theft will require further investment by the purchaser to restore the property back to the state of the art. Because of the limited resources available to the entrepreneur this needed further investment may prove to be a difficulty.

A possible solution would be to allow the purchaser to defer Federal income tax that becomes due on the profits of a system purchased through a 1033 condition of disrepair for a period of 3 years after a profit is recognized if the amount due in tax is reinvested back into the cable television system. (Note that the average time for a cable system to become profitable is usually 5 years if all other extrinsic factors do not adversely affect operation.)

Therefore, it becomes advantageous to the entrepreneur and the community for Congress to amend the Code to provide that the en-

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[4] Recommendations have been made to expand Section 1071 policy to expressly include cable television, although pursuant to the Department of the Treasury Regulation Section 1071-1 the term "radio broadcasting" includes telecasting.

[5] Tax certificates empower the Commission to certify that the sale or exchange of a broadcast property is "necessary or appropriate to effectuate a change in a policy of, or the adoption of a new policy, by the Commission with respect to the ownership and control of radio broadcast stations."

[6] Department of Treasury Regulation. Section 1071-1(b).

trepreneur will not be taxed for a period of 3 years on profit which is reinvested in the firm, if the telecommunications system in question was purchased through a section 1071 sale and was in a condition of disrepair when acquired. This, it was indicated, is needed to assure that the system has the opportunity to run as an efficient and viable cable system.

d. Tax treatment of affiliated corporations and the cable industry

Sections 1501–1564 of the Code set out the consolidated return rules. The consolidated return theory goes to the principle of levying the tax on the true income of one enterprise, even though the business is operated through more than one corporation. As few as two corporations can file consolidated returns.

Section 1504 allows the filing of consolidated return and the make-up of the "affiliated group" if "one or more chains of includible corporations connected through stock ownership with a common parent corporation." While the Code or Treasury Regulations do not specifically define a parent corporation, by implication, it is defined through Section 1504(a) as that entity which "owns directly stock possessing at least 80 percent of each class of the voting power of all classes of stock and at least 80 percent of each class of the non-voting stock of at least one of the other includible corporations." Through this corporate formation various tax benefits and disadvantages arise for both the parent and subsidiary organizations involved.

Joint ventures (as detailed in part 4 of this report) offer the small and minority entrepreneur a viable opportunity to become a franchise owner and operator in both the smaller and larger cable markets. It also offers the opportunity to develop meaningful local programming which could be developed by the local entrepreneur who has first hand knowledge of community needs.

However, because of the provisions of Section 1504, many of the larger system operators that have been awarded franchises have opted to use the 80/20 "affiliated group" make-up, in larger localities for (1) the tax advantages offered and; (2) to establish a percentage of local small and minority entrepreneurial control.

Unless there is to be a dollar-for-dollar commitment by local investors who desire to own more than the 20 percent, the MSO will generally steer clear of a higher percentage of ownership by the small and minority entrepreneur in favor of an investor with more venture capital to offer. Some witnesses suggested increasing the proportional relationship (i.e. to a 70/30 level or a 60/40 level). A possible alternative would be the negotiation of a franchise agreement which would maintain the 80/20 relationship, and increase the percentage of profits for the small and minority entrepreneur or a negotiated increase in the de facto control of the programming, and franchise operation on a day-to-day basis. Many of the witnesses expressed concern over the existence of a "rent-a-citizen" operation which the local operator has used for his access to the local political market, who does not play a meaningful role in the operation of the system. While amendment of the Code may increase the percentage relationship of the subsidiary to the parent, it will not guarantee meaningful local control of the operation,

which may be better attained through negotiations between the parties.

4. Bona fide joint ventures between small and minority entrepreneurs and majority companies and multiple franchises in major markets

Bona fide joint ventures between small and minority entrepreneurs and MSOs have been seen as a means of allowing the small entrepreneur to enter into the cable market. In the major municipal markets, joint venture possibilities are even more attractive where multiple franchises are awarded. This allows for the possibility of more small and minority entrepreneurial and MSO combined ownership. Several witnesses supported the multiple franchise concept in major markets because it is a realistic method for small and minority entrepreneurs to wire large areas with dense populations.

In many large markets, the only realistic hope for local groups to own a cable system is to form a joint venture with a larger partner. As cable moves into the large communities the need for the local partner is a political necessity to help the major operator win the franchise. It was the consensus of the witnesses that some financial incentive should be afforded the MSOs to work with local small businesses in terms of ownership and contractual services (see Part 3(c), Joint Ventures and Tax Treatment of Affiliated Corporations).

No major market in excess of 200,000 homes has been wired. With the lucrative municipal markets still to be wired, multiple franchising presents another realistic opportunity to bring a good number of small and minority entrepreneurs into the market. The witnesses, however, did not suggest a division of a franchise to the point where it is economically unfeasible. Rather, where there are cities capable of being economically divided, competition should be promoted by allowing a number of smaller franchises rather than one large franchise operation. Logically, the smaller the franchise the easier it should be for the small entrepreneur to compete and obtain the requested financing. In addition, division assures that specific information can be geared to a specific community need. This should spur local involvement in all areas of cable. Mr. Alex Mercure suggests three points that rationalize the division of large urban areas:

(1) When you organize a cable system along one line, the flexibility to provide programming which is most suitable to a particular neighborhood disappears.

(2) The flexibility to respond to local community needs can perhaps be done when franchises are broken into smaller units.

(3) It provides an opportunity for much greater participation among the business and entrepreneurial populous.

5. The need for further study to determine if small and minority businesses have been adequately financed in the telecommunications industry

Questions have been raised about the role of the Federal Government and the financial institutions with regard to small and minority entrepreneurial involvement in the cable television industry. In view of the government's traditional role as regulator of the

industry, its legal commitment to small businesses, its oversight of financial institutions, and its position against discriminatory practices in all of the areas mentioned, many witnesses believed that the Federal Government was best equipped to do an in-depth study of both conventional and unconventional investment vehicles. This study, the testimony concluded, should review the industry as a whole and prepare an overall cable television system educational package for the small and minority entrepreneur as well as other interested parties.

Financial institutions, both large and small, were criticized by some of the witnesses for their lack of sensitivity to the needs of the small and minority entrepreneur. Some witnesses rationalized that the position taken by the financial institutions is a result of established bias or prejudices against small and minority businesses. Others claimed that it is also rooted in a lack of understanding about the cable industry in general. The financial institutions responded that some small and minority entrepreneurs do not prepare satisfactory proposals to attain the required financing. Others lack industry expertise to manage a system, or otherwise demonstrate a lack of ability to service the requested debt.

It was, therefore, concluded by most witnesses that the study should explore the degree and types of financing available for telecommunications ventures. Specifically, it should determine whether each major financial institution currently finances telecommunications ventures in general and, if so, the aggregate amount of such financings outstanding; the amount of unfunded commitments and the projected new volume of such loans; whether the institution has a program specifically for small and minority entrepreneurs and the lending criteria for all such programs.

It was also recommended that the study should develop a financial planner to assist the small and minority entrepreneur in the development of loan proposals. A good proposal can affect favorably the investor's willingness to undertake the risk. Thus, it is possible that investment in a particular "deal" could be generated by an effective presentation, even where risk is high.

The study could, in addition, produce a bibliography of materials that discuss tax advantages such as farm leasing, which can flow from investment in telecommunications enterprises.

The study also could recommend a means of developing the greater sharing of resources and information between the larger regional banks experienced in telecommunications financing and smaller local lenders that may lack such expertise. The banking associations should be encouraged to promote such sharing among its members.

There is a further need to ensure that lenders are aware of the existence and availability of Federal and State programs that provide guarantees of certain commercial loans. It is particularly important that the line officers of lending institutions know of the program. Here again, the banking associations could be helpful.

Finally, the study should make available as much information as possible to the small and minority entrepreneurial community regarding new ownership opportunities including licensing satellite operators, and the raising of capital through public stock offerings.

CHAPTER IV.—CONCLUSIONS

The Committee concludes that the traditional roles of small business in the cable television industry must be preserved and expanded. With the rapid growth of the industry and the distinct possibility that industry concentration may well occur, small and minority business involvement in the industry must be expedited by affirmative measures. Since the Congress has already decided that Federal regulation of the industry is appropriate, it would be best to achieve this purpose through the maximum utilization of Federal or federally sponsored initiatives.

We conclude, because of the high costs associated with the construction and ownership of a cable television system and the small and minority entrepreneur's limited access to adequate financing, that SBA's regular business loan program ceiling is insufficient to meet the legitimate needs of the industry. We further conclude that the present size standard of $3 million in gross receipts is totally inappropriate and therefore, in need of revision.

We conclude that SBA has not given the issues concerned with small and minority business participation in the cable television industry adequate attention or concern.

We conclude, that there is a dramatic present and future need for venture capital in the cable television industry. The evidence also established that for many small businesses, SBIC's and MESBIC's are the only available source of equity capital and this situation is particularly true for those small businesses owned by minority individuals. The Committee believes, however, that this need has only been slightly impacted by the SBIC's and even less by the MESBIC's.

The Committee further concludes that the SBA has received a dramatic return on the funds it has committed to the SBIC and MESBIC program. There is no doubt that the program has been highly cost effective for the agency. In addition, the operations of the program have yielded tax benefits to the Government and increased participation of small business in the economy. Further, the program has "spun-off" a private venture capital sector with its resulting economic benefits. The Committee concludes that the SBIC's and MESBIC's have been responsible for creating substantial employment opportunities. We, therefore, conclude that these successful programs should be more fully utilized to assist small firms in the telecommunications industry.

We conclude that certain sections of the Internal Revenue Code have adversely impacted the small and minority business participation by limiting investment in used systems, joint ventures between majority companies and small and minority entrepreneurs, and the realistic "investment use" of the tax certificate program.

CHAPTER V.—RECOMMENDATIONS

On the basis of all evidence received, further investigation by the Committee, and the review of all available data, the Committee recommends:

A. That the Small Business Administration: (1) Investigate and recommend alternative means of financing small and minority entrepreneurs involved in the cable television industry, including the feasibility of implementing an industrial government or industrial revenue bond program for communication entities. This recommendation must be submitted to the Committee for review and consideration.

(2) Consider assigning and training professional staff in the telecommunications field so that they, in turn, may implement a program to disseminate current information on industry developments to those small firms wishing to start or expand a communications business.

(3) Should investigate and recommend possible incentives that would promote increased SBIC and MESBIC funding of small and minority entrepreneurs in the cable television industry.

(4) Promulgate a revised size standard for the cable television industry which is based solely on the number of employees and which reflects the high cost of construction and operation of cable television.

(5) Maintain statistics on the number and amount of regular business loans made to cable television operators.

(6) Report back to this Committee by March 1, 1983, on actions taken to implement recommendations A1 through A5.

B. That the Federal Communications Commission: (1) Institute affirmative action guidelines that support small and minority business participation in the cable television industry.

(2) Establish a medium of communication with Federal legislators, State legislators, local municipalities, small and minority businesses in the telecommunications field, the Small Business Administration, financial institutions, National Cable Television Association and institutions of higher learning that have telecommunications programs to assist small and minority business entry into the telecommunications field; and to assist small and minority businesses by providing these entities with information to maximize opportunities for minority ownership in entry policies and licensing procedures for new telecommunications technology; and to present information on the impact of deregulatory and structural proposals on minority ownership in telecommunications.

(3) Issue an ownership report annually which gives percentage of telecommunications properties owned by minorities.

(4) Increase communications with the Minority Business Development Agency so that MBDA can assign and train their professional staff in the telecommunications field to educate the minority busi-

ness entrepreneur interested in telecommunications ventures. MBDA should develop a system whereby interested entrepreneurs would be referred to the appropriate Minority Business Development Center so that a marketable loan package can be prepared.

(5) Institute a Certificate of Application Compliance requiring that all telecommunications companies, including cable television systems both existant and proposed, establish affirmative action programs that will utilize small and minority owned businesses. Existing systems carrying broadcast signals prior to December 31, 1982, could continue carrying signals without the Certificate of Compliance until its current franchise period ends or to March 31, 1983, whichever comes first; then the certificate would be required.

All proposed cable television systems should be required to establish affirmative action programs prior to May 31, 1983, that will utilize small and minority owned businesses. Implementation should take place sixty (60) days after the award of the franchise permit.

The small and minority entrepreneur should be allowed to file a petition with the FCC if the MSO and/or cable system operator is in violation of its Certificate of Compliance. The FCC should assign an Administrative Law Judge to review and render an interim decision within thirty (30) working days, and a final decision by the full Commission should be rendered within forty-five (45) working days after receipt of the interim decision.

If a cable system and/or a MSO is found to be in violation of a Certificate of Compliance, the FCC should order that:

(a) The MSO and/or cable system operator has an additional sixty (60) days to comply with the Certificate of Compliance; and

(b) If at the end of the sixty (60) days the MSO and/or cable system operator is still in violation, the FCC should immediately revoke the Certificate of Compliance and the cable system and/or MSO fined at least $1,000.00 per day.

(6) Do a study with the Small Business Administration and the requested assistance of financial institutions to determine if small and minority businesses have been adequately financed in the telecommunications industry in the purchase of existing systems and determine what other avenues can be developed to assure meaningful small and minority business involvement in the cable television industry.

(7) Report back to this Committee by March 1, 1983 on actions taken to implement B1 through B6.

C. That local municipalities/cities: (1) Adopt multiple franchising agreements. Multiple franchising should encourage uniform operating procedures for each cable company and encourage the cable company to provide the consumer with quality service at affordable rates. Also, multiple franchising will allow for overbuild and encourage competition for subscribers among cable system operators on a competitive service basis and deter monopolistic control.

(2) Limit franchise size to a maximum of 20,000 subscribers.

D. That appropriate Committees of Congress give favorable consideration to legislation that would: (1) Raise the ceiling on SBA's regular business guarantee loan program to $1 million if the exist-

ing $500,000 maximum is determined to be inadequate due to the financial needs of small businesses in other industries.

(2) Amend Section 1071 of the Internal Revenue Code to allow the taxpayer to use preferential capital gains tax reporting method when a cable television system or broadcast facility is purchased by a small or minority business.

(3) Amend Section 48(c) of the Internal Revenue Code to raise the limitation of equipment purchased to a much larger amount, e.g. $5 million in cases where a minority-controlled firm is purchasing, directly or through a partnership, an operating telecommunications system.

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